

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 SSO-00 NSCE-00 INRE-00 USIE-00 CIAE-00

DODE-00 PM-04 H-02 INR-07 L-03 NSAE-00 NSC-05 PA-01

PRS-01 SP-02 SS-15 EB-07 TRSE-00 AID-05 IGA-02 OPIC-03

OMB-01 CIEP-01 XMB-02 COME-00 /072 W

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FM AMEMBASSY BUENOS AIRES

TO SECSTATE WASHDC IMMEDIATE 4584

C O N F I D E N T I A L BUENOS AIRES 1185

E. O. 11652: GDS

TAGS: EGEN, EINV, AR

SUBJECT: AMBASSADOR HILL'S MEETING WITH ECONOMY MINISTER MONDELLI

REF: A) BUENOS AIRES 7832, NOV. 28, 1975, B) BUENOS AIRES 8121,
DEC. 12, 1975, C) BUENOS AIRES 1133

1. TODAY (FEB. 20) I MET WITH ECONOMY MINISTER MONDELLI
TO ESTABLISH INITIAL CONTACT AND TO INTRODUCE EMBASSY'S
ECONOMIC SECTION. MINISTER MONDELLI WAS ACCOMPANIED BY
CENTRAL BANK PRESIDENT EDUARDO ZALDUENDO.

2. MINISTER LOST NO TIME MOVING TO HEART OF OUTSTANDING
INVESTMENT PROBLEMS. HE PROVIDED FOLLOWING USEFUL RESUME
OF SITUATION.

3. MORGAN GUARANTY AND FIRST NATIONAL CITY BANK

MONDELLI EXPLAINED THEIR PROBLEMS ARE BEING RESOLVED BY
SPECIAL BILL MODIFYING BANK NATIONALIZATION LAW 20-522
(SEE REFTEL A). BILL EXEMPTS THESE BANKS FROM EXPROPRIATION
PROCEDURES AND ALLOWS DIRECT ARGENTINIZATION WITHIN 180 DAYS.
MONDELLI EMPHASIZED BILL WOULD BE RESUBMITTED TO CONGRESS
AS SOON AS IT RECONVENES, WHICH EXPECTED NEXT WEEK. HE
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CONTINUED DIRECT ARGENTINIZATION WAS SOLUTION PREFERRED

BY BOTH BANKS. MONDELLI SAID CITY BANK, UNDER DURESS OF EXPROPRIATION, GAVE OPTION FOR PURCHASE ITS BRANCH, BANCO DEL ATLANTICO, TO GROUP ARGENTINE INVESTORS UNDER CONDITIONS POSSIBLY UNFAVORABLE TO CITY BANK. TURNING TO CENTRAL BANK PRESIDENT ZALDUENDO, HE GAVE EXPLICIT INSTRUCTIONS THAT CENTRAL BANK SHOULD DISALLOW THIS TRANSACTION, ENABLING FNCB FREELY NEGOTIATE ARGENTINIZATION ON MORE FAVORABLE TERMS.

4. CHASE MANHATTAN

MONDELLI SAID CHASE SITUATION SOMEWHAT MORE COMPLICATED. FIRST, HE EMPHASIZED IMPORTANT POINT THAT CHASE WISHED TO BE EXPROPRIATED BECAUSE IT DISSATISFIED WITH INVOLVEMENT IN BANCO ARGENTINO DE COMERCIO. THUS, GOA HAD NOT INCLUDED CHASE IN ABOVE SPECIAL BILL. TO PROCEED WITH EXPROPRIATION (WHICH CHASE DESIRED) MONDELLI, FOR DOMESTIC CONSUMPTION, USED ARGUMENT THAT EXPROPRIATION CHASE SUBSIDIARY NECESSARY IN PUBLIC INTEREST BECAUSE GOA WISHED CONVERT IT INTO OFFICIAL BANK FOR EXTERNAL COMMERCE. MONDELLI CONTINUED (1) DECREE PROVIDING COMPENSATION VALUE FOR CHASE SUBSIDIARY, BANCO ARGENTINO DE COMERCIO, AS OF APR. 30, 1974 ALREADY SIGNED BY MINISTER AND PRESIDENT, (2) DECREE AUTHORIZING INFLATION ADJUSTMENT ALSO SIGNED BY MINISTER AND PRESIDENT. REGARDING LATTER, MONDELLI SAID CHASE VICE-PRESIDENT MASON HAD DETECTED SMALL OVERSIGHT IN ADJUSTMENT CALCULATION; REGRETABLY BANK'S CASH RESERVES HAD NOT BEEN INCLUDED. ACCORDING MONDELLI, CENTRAL BANK PRESIDENT XALDUENDO PRESENTLY DRAFTING NEW DECREE AMENDING OVERSIGHT. MONDELLI POINTED OUT THESE DECREES DO NOT REQUIRE CONGRESSIONAL APPROVAL. HOWEVER, MINISTER SAID HE DID NOT DISCOUNT POSSIBILITY HE WOULD SEEK FUTURE CONGRESSIONAL RATIFICATION FOR POLITICAL REASONS.

5. MINISTER MONDELLI THEN EMPHASIZED GOA WISHED TO SATISFY CHASE IN ANOTHER, SEPARATE, MATTER -- THAT OF CHASE'S INVESTMENT BANK. HE EMPHASIZED THIS ISSUE MUCH MORE COMPLEX BECAUSE CONGRESSIONAL LAW REQUIRED. MONDELLI SAID (1) INVESTMENT CONTRACT BETWEEN MINISTRY OF ECONOMY AND CHASE MANHATTAN ALREADY SIGNED (BA 8121), AND (2) CONFIDENTIAL

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CENTRAL BANK ALREADY PROVIDED NECESSARY AUTHORIZATION. LAST NIGHT (FEB. 19) MINISTER MONDELLI SAID HE SIGNED AND SENT TO PRESIDENT NEW BILL WHICH (1) APPROVED INVESTMENT CONTRACT AND (2) AUTHORIZED THE INVESTMENT BANK. MINISTER MONDELLI EMPHASIZED HE WOULD PRESS FOR RAPID ACTION ON BILL WITH PRESIDENTIAL SECRETARY. AFTER PRESIDENTIAL SIGNATURE, BILL WOULD BE PRESENTED IMMEDIATELY TO CONGRESS.

6. MINISTER MONDELLI CONTINUED THAT HE REALIZED WE STILL HAD PRESSING PROBLEMS WITH STANDARD ELECTRIC/ITT AND OTHER COMPANIES. HOWEVER, HE THOUGHT HE HAD ACCOMPLISHED A LOT IN ONLY 11 DAYS IN OFFICE. HIS EFFORTS DIRECTED AT SHOWING GOOD WILL AND SERIOUS INTENT RESOLVE OUTSTANDING PROBLEMS, HE SAID.

7. FINANCIAL PROBLEMS

MINISTER MONDELLI THEN DISCUSSED ARGENTINA'S OWN EXTERNAL FINANCIAL PROBLEMS. HE EMPHASIZED IMMEDIATE FUTURE WOULD BE DIFFICULT. CONSEQUENTLY HE HOPED COMMERCIAL BANKS WOULD AGREE ROLLOVER OUTSTANDING DEBT, AT LEAST UNTIL NEW IMF CREDITS NEGOTIATED. HE EMPHASIZED COMMERCIAL BANK ASSISTANCE NOT RELATED SETTLEMENT INVESTMENT PROBLEMS. MOREOVER, HE WOULD AVOID DIRECTLY REQUESTING ASSISTANCE FROM BANKS WHICH NOT POLITICALLY DESIRABLE. HOWEVER, HE SAID HE WOULD GREATLY APPRECIATE ANY HELP USG MIGHT BE ABLE TO GIVE IN OBTAINING COMMERCIAL BANK COOPERATION.

8. AT THAT POINT, MINISTER MONDELLI CALLED OUT OF ROOM TO TAKE TELEPHONE CALL (WHICH HE LATER TOLD US FROM ADM. MASSERA). PRESIDENT ZALDUENDO TOOK ADVANTAGE OF OPPORTUNITY TO REMIND US OF SUPPORT IMF HAD GIVEN ARGENTINA IN OCT/NOV NEGOTIATION OF OIL AND EXPORT COMPENSATION CREDITS. HE SAID HE HOPED USG AND US EXECUTIVE DIRECTOR TO FUND WOULD CONTINUE PROVIDE SUPPORT.

9. MEETING TERMINATION

I THANKED MINISTER MONDELLI FOR VERY FRANK AND DETAILED REVIEW OF SITUATION. I SAID OF COURSE CONFIDENTIAL

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I COULD NOT COMMIT USG TO ANY SUPPORT ON FINANCIAL ISSUE. I POINTED OUT, HOWEVER, THAT SECRETARY KISSINGER'S MEETING WITH MINISTER QUIJANO LAID FRAMEWORK FOR CONTINUED GOOD RELATIONS BETWEEN ARGENTINA AND US. I SAID MINISTER MONDELLI COULD COUNT ON EMBASSY TO WORK IN PURSUIT OF CONTINUED GOOD RELATIONS.

10. COMMENT: MINISTER MONDELLI WAS EXTREMELY FRANK WITH US AND OBVIOUSLY MAKING EVERY EFFORT SHOW HIS GOOD INTENTIONS. HIS REVIEW OF DEVELOPMENTS PROVIDES INTERESTING PERSPECTIVE ON GOA ATTITUDE TOWARD BANK PROBLEMS. IT MAY WELL BE THAT MINISTER MONDELLI, WHILE CENTRAL BANK PRESIDENT, WAS KEY FIGURE BEHIND FAVORABLE NEW BILL ENABLING FNCB AND MORGAN GUARANTY TO ARGENTINIZE DIRECTLY. POINTS PARTICULARLY WORTH NOTING IN OUR VIEW ARE (1) ECONOMY

MINISTER HAS NOW SIGNED BILL FOR CHASE'S INVESTMENT BANK,
AND (2) GOA IN SERIOUS EXTERNAL FINANCIAL DIFFICULTY
AND BADLY IN NEED OF CONTINUED COOPERATION FROM COMMERCIAL
BANKS. WE WILL KEEP WASHINGTON INFORMED OF RESULTS CHASE
VICE PRESIDENT MASON'S DISCUSSIONS WITH GOA.
HILL

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: LAW, BANK NATIONALIZATION, LEGISLATIVE BILLS, INVESTMENTS, MEETINGS
Control Number: n/a
Copy: SINGLE
Draft Date: 21 FEB 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ShawDG
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976BUENOS01185
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760065-0972
From: BUENOS AIRES
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760227/aaaaaxru.tel
Line Count: 175
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 76 BUENOS AIRES 7832, 76 BUENOS AIRES 8121
Review Action: RELEASED, APPROVED
Review Authority: ShawDG
Review Comment: n/a
Review Content Flags:
Review Date: 28 OCT 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <28 OCT 2003 by GarlanWA>; APPROVED <26 OCT 2004 by ShawDG>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: AMBASSADOR HILL'S MEETING WITH ECONOMY MINISTER MONDELLI
TAGS: EGEN, EINV, AR, (MONDELLI)
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006